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SUBJECT: TAJIKISTAN'S HYDROPOWER: GEOPOLITICAL GAME OR GOOD BUSINESS?

1. (SBU) President Rahmonov hosted a December 11 meeting to discuss Tajikistan's hydropower projects. Tajikistan is one of the world's leading countries in hydropower potential, and increasingly feasibility studies point to domestic and foreign markets that could help Tajikistan realize the economic benefits. The meeting lasted several hours and included enough major international players to suggest these projects are now serious business. Tajik Ministers, representatives of the World Bank, Islamic Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, the German company Lahmeyer and the Russian company RusAl all attended. The American firm, AES, was represented by Vice President Dale Perry. Perry briefed EmbOffs after the meeting. Although optimistic about AES's possible role on the Rogun hydropower plant, he is nervous about the potential geopolitical intrigue behind the scenes. Perry believes 90 percent of the decision-making takes places behind closed doors, with sometimes very little consideration for the simple economics of the projects.

2. (SBU) President Rahmonov spoke eloquently and with detailed knowledge of the hydropower projects. He clearly stated his intentions. Rahmonov does not believe Sangtuda I or II will produce enough power to sell to Afghanistan or Pakistan, and therefore he has allowed Iran and Russia to finance the projects for Tajikistan's domestic consumption. The World Bank devoted a lot of effort into feasibility studies on export power from the Sangtuda projects. Cevdet Denizer, the World Bank Tajikistan Country Director, was disappointed at Rahmonov's decision not to allow IFIs to participate in those projects.

3. (SBU) Rahmonov sees the Rogun hydropower plant as the vehicle for export to Afghanistan and Pakistan. The Tajik President met with Presidents Karzai and Musharraf in Mecca earlier this month and confirmed their desire to purchase power from Tajikistan. Until Rogun comes on line, Kazakhstan would supply power south with lines running through Tajikistan. President Rahmonov views AES as the lead on the Rogun project with IFIs support and perhaps RusAl cooperation.

4. (SBU) The IFIs indicated they would only support Rogun for international export, not domestic consumption. The World Bank needs to conduct a feasibility study on Rogun. They still have questions about RusAl's role in Rogun, knowing RusAl's stated intention is to use the plant to power Tajikistan's "TadAz" aluminum plant. Denizer awaits the World Bank's senior management decision on cooperating with RusAl, a company not known for its transparency or acceptance of Western business standards. Thus far, RusAl has not been able to comply with International Finance Corporation (IFC) standards and has applied for an IFC compliance review. RusAl has hired the German company Lahmeyer to conduct a feasibility study, and Denizer worries the Rogun project will eventually be given to Russia, just like Sangtuda I. Perry believes AES is in a stronger position right now than RusAl in the eyes of the Tajik leadership and he indicated the question is whether RusAl will even participate in the Rogun project.

5. (SBU) President Rahmonov formed a working group to formalize the structure of cooperation. The working group, consisting of the Tajik Deputy Prime Minister, the Chairman of the National Bank, AES, RusAl and the international financial institutions will meet January 12 in Islamabad to draft a Memorandum of Understanding.

6. (SBU) Perry will be meeting with the Ambassador December 19 and plans to return to Dushanbe January 19.

7. (SBU) COMMENT: Perry said AES will base its business

decisions on economics. Geopolitics and ulterior motives could potentially derail a long-term contract for AES, however, if the feasibility studies confirm the good business sense in going ahead with Rogun, AES may find itself in a lead position in the project. There will be other hurdles ahead as well, including the environmental impact of the proposed projects and the social impact if some irrigation water is diverted from downstream



farmers. For now, Tajikistan is a step closer to finding a way to integrate more fully into the region, and perhaps to becoming the broker that finally brings U.S. and Russian interests into alignment so that Russia and the United States actually cooperate in Tajikistan, rather than compete on the basis of a zero sum game. END COMMENT.  
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